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## THE PROSPECTS FOR ECONOMIC INTERNATIONALISM

BY WILLIAM ENGLISH WALLING

The French and British governments have solemnly bound themselves to put into effect the program for a trade war elaborated by the Entente Economic Conference. The American press is unanimously against the new policy even after it is too late to protest. Some papers profess to find it too mad for belief. Others plan retaliation, and even suggest—in case it is actually carried out—an economic alliance with Germany.

It is a condition and not a theory that confronts us. The Entente statesmen have declared that their purpose is the economic defense of the Entente, the economic independence of the world, to employ an expression of one of the three British delegates, Hughes of Australia. And it is certain that the proposal of an economic alliance of Germany and Austria and Central Europe gained the adhesion of the leading parties of Germany before the similar plan of the Entente powers had secured the support of public opinion in Great Britain. But while Germany has begun to draw back at the prospect that she might get the worst of such an economic war, the idea had obtained a constantly increasing popularity in Great Britain for the same reason. Von Gwinner, President of the Deutsche Bank, confesses that “the one thing that Germany’s highly developed industry cannot stand is that we should, by granting one-sided preferences to our friends, quarrel with the whole world.” Indeed the German Minister of the Interior, Von Jagow, has practically admitted that Germany would be beaten in a purely economic struggle, when he says that Germany will not lay down her arms until the Entente has conceded her the same economic position as she held before the war.

To this demand for a return to the economic *status quo* the French have made the following answer: It was Germany which forced upon France in 1871—by her military superiority—the “most favored nation clause.” This clause forbids France to make either the tariff treaties and economic alliances which are to her economic interest or those which might strengthen her military position. Thus

France was for forty-three years, to this degree, economically dependent upon Germany. She now declares her economic independence.

### 1. THE WAR AFTER THE WAR

The responsibility for "the war after the war" may then be placed on the shoulders of either group of belligerents. It is like the question of the responsibility for the war of fleets and armies; the problem is too complicated for a satisfactory and simple answer, and at the present moment it has become of secondary importance. For the Entente is preparing for the coming economic war as systematically and relentlessly as the central powers prepared for the military conflict.

Whether we like it or not we are involved in this economic "war." Surely the greatest and most practical nation in the world will henceforth confine its attention to this overshadowing fact. Until the new world war was actually declared, there was still some excuse for our protest that we opposed it. That position may have been due to a blind and selfish nationalism or to ignorance or indifference as regards world affairs; it may have been incredibly impractical in view of the fact that there was no practical reason why the Entente should not undertake this kind of war against its enemies and no practical means by which the United States could prevent, deter, or even moderate such action. Still as long as the new war had not been declared we might please ourselves with the hope that it would not be. That hope cost us nothing more than our state of mental unreadiness to meet the issue when it was presented. We refused to face the situation until it was completely developed. We must face it now.

The phrase, "the war after the war," implies not only that the military war will have been finished, but that another war is to be added to it. On the contrary the only ground upon which the economic "war" was or could have been suggested was that it will act largely as a substitute for military war. The longer the military struggle the shorter the economic struggle and vice versa. Indeed this fact is recognized by the Paris correspondent of such a consistent low tariff paper as *The New York Evening Post*, which points out that the economic conferences of the Allies may help "to neutralize the aggressiveness of Germany which *otherwise* might lead to a new war after a few years of peace." The correspondent continues:

"That an economic war of some kind is bound to prolong the war of soldiers and guns, nobody in his senses can deny. This was the inevitable risk of war and Germany took the risk." He says that Americans should remember that Germany had secured by treaties (partly compelled by war or the threat of war) a position "favored and privileged above that of the United States."

Nor is the new policy of the Entente in reality an economic war—except in the figurative sense in which all competition is war. In this sense most of the industry of each nation is in a state of war, and every nation is at present in economic war against every other nation. In competition one does not necessarily aim, even gradually, to reduce one's rival to relative impotence, though competition does often lead to economic war in this sense, especially when the stage of great combinations is reached. Perhaps this is the ultimate stage in all private industry. But if we do decide to call the economic competition of nations economic war, if we declare with a *New York Times* editorial that "the world has not yet advanced beyond the stage of war in economics," then we cannot avoid two conclusions with regard to the new policy of the Entente. We must admit that the "war after the war" is on no different fundamental footing than "the war before the war." And we must admit also that the proposed mutual lowering of tariffs within the Entente may conceivably mean an increase in the area and degree of trade-peace greater than the proposed increase of this previously existing trade-war with the central powers. The economic prosperity of the United States is acknowledged to be largely due to the non-existence of tariff walls within our vast area; the success of the present German Empire was largely due to the preceding Zollverein. Yet Herr Ballin, Director of the Hamburg American Line, says that one of the main objects of Germany in the present war is to prevent the British Empire from adopting a policy of preferential tariffs, and hitherto most Americans have seemed to sympathize with him.

Let us admit that the world has hitherto been in a state of permanent economic war. Few practical statesmen would deny that it is this war chiefly, if not almost exclusively, that has produced military conflicts. We must aim above all, then, at economic peace. Is it surprising that the chief means of attaining this peace, and the steps by which it is to be reached, are proving to be more and more of an economic order? Even military war now rests

more upon industrial power than upon numbers of men or purely military organization. Is it not the natural course of world evolution that economic war should gradually replace military war altogether—even as a means of compelling the minority of the nations to accept the plans of the majority as to international economic relations and world organization?

In one sense, and one sense only, is the new policy strictly comparable to war. It does *not* aim to set up an economic balance of power, nor at two permanent hostile alliances. It has a definite object, the same as the object of the present war. It proposes to compel the minority among the nations to enter into the new combination, to accept the will of the present majority as to boundaries, and the will of a future and constantly changing majority as to all other economic questions. Like the American trusts, it does not aim to destroy its rivals, but tends to force them to come into the combination, not at their own figure, but at a figure that yields a handsome profit all round.

But it is not to be a policy directed primarily against any nation. An Entente arrangement "for fostering trade among themselves" that results "to the disadvantage of Germany" (the excellent characterization of *The New Republic*) combined with a similar arrangement of the Central powers does not amount to "a mutual boycott," as the correspondent of the Associated Press states. This correspondent answers himself when he says that while an actual "war after the war" may not eventuate, "statesmen in both European groups are discussing how they may use treaties and tariffs to get the upper hand in commerce" and he refers to the Germanic powers as having taken the initiative in this activity with their proposed Central European Zollverein. *The New York Evening Post* also remarks editorially that the Entente plan "strikes a note of mutual aid rather than injury to the common enemy." But the mutual aid of a limited group *under conditions of competition between nations* means the *relative* loss of those nations outside the new alliance.

The equally staunch British organ of low tariffs, *The Manchester Guardian*, is more constructive. It urges that Germany also must be admitted into the "union of nations" as soon as her people "give up their faith in war and agree to work with other nations for world peace and for the common good of all." The very object of

the new combination is to bring Germany to realize this necessity. But *The Guardian* realizes that this may require some time. It continues:

A union of States is to be set up against another union of States. Such proposals challenge our enemies to continue an economic war after this war is finished. If Germany shows no repentance for her plot against the world's freedom; if she manifests no change of mood, then this painful thing might have to be. If Germany uses her commercialism as the cat's paw of her militarism, then we must fight her commercialism, for the whole spawn of militarism is poisoned with the evil of its origin. So if the German nation were sullen after this war over being beaten, but not convinced of the wrong of militarism, and if the nations set out to prepare for a permanent war, why, then such proposals might become necessary.

*The Guardian* is a free trade organ and advocates the proposed tariff union exclusively as an emergency measure. But the new policy is also the result of a natural evolution. Suppose Great Britain enacted a tariff about half as high as those of Germany and the United States. Would this constitute an indefensible trade war? Suppose she then secured, by reciprocal treaties, reductions—as far as she is concerned—of the tariffs of Canada and Australia, and also of France and other allies. Certainly that would not be an increase of trade warfare. Suppose she used the same means to secure a reduction of American and other neutral tariffs against her. Would not the total result be a net reduction from the present tariff levels?

The key to the whole situation lies in the fact that Great Britain is the only important free trade nation. All the other great powers are not only protectionist but have very high tariffs. Therefore, by temporarily abandoning her free trade principle she has something to offer all nations. If she uses this advantage for any other purpose than to secure a reduction of their tariffs, the total world result will be a reaction towards a net intensification of existing trade wars. But if she uses it exclusively to secure tariff reductions there will be a net gain for trade peace, provided she enters into reciprocity treaties with nations having the larger part of the world's trade. Now the foreign trade of Great Britain's colonies and allies is far greater than the foreign trade of Germany and Austria. And this is natural since the Entente has considerably more than twice the wealth, income, and industrial power of the Germanic powers,

several times their population and many times their land area—to say nothing of the Entente's commercial predominance at sea.

But it will be to the interest of Great Britain to enter into reciprocity treaties with the neutrals also, especially the United States—and all the plans of the new economic union provide for such a policy. It would, furthermore, pay Great Britain, *if she were a separate unit*, to enter into a tariff treaty with Germany. If such a treaty seems at present unlikely it is because Germany herself, as well as Great Britain's allies, would probably not consent to very radical reductions.

But while Great Britain has this choice of action with all the nations, the high tariff nations, whether British colonies, France, Germany, or the United States, do not have any such option as to tariffs among themselves. These countries have already put their tariffs as low as they believe their national economic interests permit. They have reduced these tariffs by treaty whenever the ruling economic classes felt they could secure a corresponding advantage. Germany cannot retaliate against England except at her own cost, nor can the United States. Germany and the United States cannot enter into a radically different treaty with one another in order to satisfy a spirit of revenge against England without paying a heavy price. For they have already reduced their tariffs wherever it has paid their ruling classes to do so. Germany might be willing to make the sacrifice demanded in order to injure a military enemy. The United States will scarcely go beyond a business view of the situation.

Nor would the United States be content to rest long in a condition of economic isolation. In this war Great Britain and Germany have both recognized that military and naval isolation is no longer feasible, and all American students of international affairs have learned the lesson. The new international economic groupings, no matter how partially and incompletely their union is worked out, show that the day of relative economic isolation, of national self-sufficiency, is also past. Who doubts the quickening, as a result of this war, of the economic interdependence of the component parts of the British Empire, of Germany and Austria, of Great Britain, France, and Italy? It is true that the United States has the wealth and position to remain independent for a certain period, but only at a high cost, at the risk of falling into an inferior position, and by

endeavoring to hold the economic balance of power between the two groups and using its position for its own aggrandizement without regard to the effect of this policy in keeping alive the danger of another world war. But such an aggressive international policy will not long be profitable for America after the new economic union gets into working order. And if America can see that far ahead, why can we not see also that it is to our national interest to promote this economic league to enforce peace *now* and to do our part in setting at work forces that will ultimately put an end to the present dangerous and costly organization of the economic world on a predominantly national scale?

German public men, apparently without an important exception, outside of the small group of extreme Socialists, desire to see the economic world remain divided into antagonistic national units *unless*—or, as the extremists put it, *until*—Germany is able to exercise a share of world power at least equal to all other nations combined. Even majority Socialists, like Quessel, advocate national self-sufficiency as against international interdependence. But the nation that pursues the policy of economic nationalism and continues to pursue it, is bound to retrogress *relatively*. And when the German economist avows this policy he surrenders his right of complaint against the protective measures of the other nations. Economic nationalism is the cause of Germany's failure—in so far as there has been a failure.

Great Britain, on the contrary, is the classic land of international finance. She has more money invested in the United States than in her next most profitable field, Canada—which is almost as independent politically as the United States—and she has nearly four times as much in Canada and other self-governing colonies as in crown colonies like India. She has almost as much invested in South America as in Canada, and similar proportions applied to her annual investments right up to the present war. Privileges and concessions undoubtedly exist that are based upon her colonial and naval power, but they evidently account for only a very small part of her income from foreign investments.

The proportion of British *trade* due to special national privileges was notoriously even less than the proportion of her *investments* due to this cause. Moreover, she was absorbing a constantly and decidedly smaller proportion of the trade of her own colonies from



year to year, while Germany's world trade was increasing more rapidly than England's, even though there was no probability that she would replace the latter in the British colonies.

The same general tendencies apply to France also. France retains very important tariff privileges as well as investment privileges with her colonies. Yet French investments in Russia were many times more important than her investments in all her colonies put together. Germany, Russia's neighbor, her chief customer and provider, was certainly at liberty to fill the position taken by France and without making Russia a political colony. But she preferred a hostile attitude as shown by her tariff treaty with Russia. Similarly even the Belgians were deeply interested in the great British and French railway syndicates of China. If Germany had surplus capital, and had accepted the position of minor stockholder (like Belgium) she would doubtless have been welcome there. Yet the deliberate intention of her dominant capitalists not to enter into international finance as individuals, but only as a nation, led her to slight all these opportunities.

A similar situation exists as to international trade. German economists, not satisfied with complaining of the free trade or low tariffs between England and France and their colonies, also complain of the similar policy of Russia with her new territorial acquisitions, which are contiguous, and so part and parcel of the country. They might as well protest against the greater free trade area of the United States—or the superior climate of Australia.

## 2. AN ECONOMIC LEAGUE TO ENFORCE PEACE

Permanent peace requires a certain degree of world organization. The degree of organization needed to make war altogether impossible will not be attainable at a single step. And it is further recognized that, no matter how incomplete the first step may be, it will probably fail to secure the endorsement of all the nations during a certain transition period. A bare majority of nations would not constitute a sufficient force even to begin with any of these plans. But a considerable majority, including nations that represent say two-thirds of the world's industrial and military power, would be quite sufficient. Even a somewhat smaller proportion might suffice, as part of the nations remaining outside might be in no way hostile to the dominant combination, but only too weak to feel able to make

their financial contribution to its world program or to be certain of enjoying a full share of its benefits.

The final aim of all peace plans is and must be complete world organization. In every plan a negative automatic pressure is to be exerted on all outside nations to draw them in. And in case a hostile nation or group of nations aims to break up the dominant combination, this pressure becomes positive.

Sea power is by its very nature indivisible; a nation or group of nations which controls any considerable part of the sea controls it all. Therefore, as international organization develops it will almost of necessity gain the support of the sea powers before it has the support of the land powers. The sole important economic function of the sea is to serve as an international trade route, while this is only a secondary economic function of the land. The development of sea-trade tends to tie the sea powers together, land interests keep the land powers apart (except as they unite temporarily the better to wage war). The half-way step to the internationalization of all international trade routes must thus be the predominance of sea powers, and not of land powers.

A sufficient volume of international trade would so bind the nations together as to make war highly improbable. Indeed they would soon become so interdependent economically as to make it almost impossible. This end would be secured by a world-wide system of reciprocal tariff treaties. H. N. Brailsford, one of the leading British pacifists, in his last book, reaches the conclusion that peace can be made secure only by such a Zollverein. But suppose that the central powers, representing less than one-sixth of the world's trade and hardly a fifth of the world's wealth, income and productive ability refuse to enter into such a Zollverein, unless on terms unacceptable to the other powers. Should its formation be indefinitely postponed, or should it not be hastened by the fact that automatic economic pressure would then force the minority parties all the sooner to enter into the combination?

Another promising recommendation of the Allies' economic conference is international governmental action "for the establishment of direct and rapid services of transportation by land and sea at reduced rates." The war has already brought a high degree of international operation of the shipping of the Entente. This new policy would be a first step in international government ownership

or international state socialism. All outside powers would suffer negatively from such a powerful shipping combination. But would it not be the first step towards a world-wide organization of shipping?

If a League to Enforce Peace ever comes into existence at all it will be an Economic League. Along purely political lines such an international organization is altogether impracticable. Any definite political organization would at once bring up the insoluble question of relative voting power. Is Montenegro to have one vote, the same as Russia or France? The question proved to be insoluble at the Hague and authorities like John Bassett Moore believe it to be permanently insoluble. Yet the problem cannot be avoided. The cost of an international police or national armaments held in readiness for international use, would have to be distributed. And many other equally difficult international economic problems would have to be faced.

Such international organization is unthinkable unless sufficient economic unity is already present among the combined nations to assure a common attitude on the most vital issues. Moreover, where an opposition did exist on a vital issue means would have to be at hand for exerting a pressure to prevent secession. Some day international trade may have so developed as to bring about the necessary degree of unity among a large part of the nations and to furnish the means of restraining seceding minorities. But international trade has not reached that point today, unless between the United States and Canada, and between Germany and Austria and their smaller neighbors.

However, there is another unifying economic force, international investment. Great Britain has invested a fifth of her wealth in foreign lands. If we add to this her shipping and shipbuilding interests and the expenditures of colonists and foreigners visiting or residing in Great Britain, a very large part of her income is due to foreign investment. France is in a similar situation, and many other nations are deeply involved, either as borrowers or lenders, in the web of international finance. In so far as governments are the expression of financial interests of this character, none of the problems of a widespread international economic league need prove insoluble. The financiers of the smaller nations would maintain the same attitude to those of London and Paris as in private affairs at the present time. Provided they are guaranteed an approxi-

mately just share in the profits, they yield control to the larger financial powers. An international conference of financiers, already engaged in common undertakings of a private character and mutually interdependent, would manage to reach compromises where a conference of diplomatists would reach a deadlock.

If a League to Enforce Peace comes into existence, it will be a league that concerns itself from the first with constructive economic problems and not merely with international law, justice, or morality. It will be neither judicial nor legislative but administrative in the sense that financiers administer a nation's industry. International governmental conferences directly or indirectly controlled by financiers would be as far as possible from leaving the economic or political organization of the world in the *statu quo ante*. They would respond at once to the change in economic conditions and relations due to the constant development of new forms of transportation and new trade routes, the discovery of new resources and new industrial processes and the appearance of new human needs. Nor need they represent large capital alone. In France, some of the great banks, under governmental control, try with a certain measure of success to serve the small investor, and the same is true of several other countries where middle-class governments are powerful. Financial plunder continues, but the proportion of the total capital of the country that goes in this way is relatively small. And finally, when the governmental control reaches the point it has attained in Australia, even the interests of the small farmer and artizan are consulted.

A League to Enforce Peace, if controlled by such financial interests and economic purposes, would assume a business-like attitude and not an attitude of hostility to nations outside the League. It would endeavor to bring the other nations into the combination, to the greater profit of both parties—just as the great industrial combinations did with their rivals. For this purpose it would always find economic pressure more economical than military force—unless the outside powers become exceptionally aggressive or menacing.

The United States Chambers of Commerce have already endorsed the League to Enforce Peace and the use of economic pressure, where possible, as a substitute for war. They are in favor of a boycott against any nation that "goes to war" without arbitration. Such

an improvised boycott would not only be too late to be effective, it would also be impossible of execution. As the opposition in the chambers of commerce pointed out, the cost of a boycott would almost certainly fall more on one nation of the league than on another, and the more burdened nation would refuse its consent. If, in quiet periods, when there is plenty of time and no crisis is at hand, it is so difficult to arrange a reciprocity treaty between two countries, how much more difficult it would be to arrange an international boycott in an emergency. Moreover such a boycott would be applied only for a relatively short time and at the moment when it would be least effective against the aggressive nation, already entered on its wayward course. To be effective, economic pressure must be applied steadily, systematically, and throughout a long period. It need not go by as far as a boycott in the methods employed, but it must go further than a boycott in its objective. It must aim, not merely to enforce the will of the great majority of nations in an emergency, but to compel the definite acceptance of the principle of majority rule.

As soon as the league succeeds in establishing majority rule among the nations—in fact in order to reach this point—it must proceed in the direction of removing the economic causes of war. It must make partial world arrangements as to trade routes and shipping and a partial series of reciprocal tariff treaties. This is not trade war, except incidentally. It is rather a lessening of trade war and a gradual enlargement of the areas of trade peace, a process which is the prime fact in all economic history, the chief secret of the success of Germany and the United States, as well as the British Empire. The enlargement of trade areas, like the enlargement of industrial units, is the very measure of progress, and is widely accepted as such.

This system of international reciprocity treaties, embracing trade with one nation after another until gradually all foreign trade is included, is equally remote both from free trade and from protection along national lines. Yet the principle of reciprocity is already accepted by a majority in both high and low tariff camps. The opposition comes not from finance, capital, or business as a whole, but from particular interests which are operated on the basis of the practical prohibition of imports at the cost of other industries which might develop exports far more profitable to the business of the home country considered as a whole. Before the war these parasitic

interests were so entrenched that there was little hope of uprooting them, even in order to secure valuable new markets. But now Great Britain will compel us to reconsider the whole reciprocity question. And surely in reaching a decision we shall consider the fact that the future peace of the world is also at stake. Even aside from the cost of a possible war or preparation for a war in which we ourselves may be involved, the certain disturbance of world trade from another world struggle should have some weight.

The issue is clear—it is economic nationalism against economic internationalism. Is the United States to aim solely to increase its economic self-sufficiency, or is it to enter consciously into the path that leads towards the economic interdependence of nations, the increase of the dependence of other nations on the United States and of the dependence of the United States on other nations? Up to the present there has been a steady if slow gain of interdependence throughout the world, especially during the last century—which marks the rise of modern science, industry and democracy. In spite of the efforts of Germany, France, and other nations, this beneficent economic tendency continued even after 1870. Shall the United States further this tendency? Shall it set its face towards the future by adopting a policy of economic internationalism as fast as conditions permit? Or shall it set its face towards the eighteenth goal of economic self-sufficiency?